

Desk Research: Spotify

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General Info

- **Spotify's total valuation is \$29.5B.** - The company made a total valuation of \$29.5B in 2019, which is nearly 1.25x of the projection from its valuation in 2018. This significant growth is the reason behind the spike in demand for a reputed entertainment app development company who can help chart a journey similar to that of Spotify.
- **Spotify is available on multiple platforms.** - Besides Android and iOS platform, the company has applications available on Apple macOS computers and Microsoft Windows. The company also introduced the 'Spotify Connect' functionality to enable users to listen to music from a wider range of entertainment systems.
- **Spotify app gained 20M+ installs for July, 2019.** - The application became the most downloaded mobile app under Music category for July 2019 with 20M+ installs. This was a 35% increase from the value recorded in July 2018.
- **It is operating in around 79 countries.** - From Austria to Japan, Canada, Australia, and Egypt, Spotify has gone live in 79 countries and is planning to enter many more regions. This gives a clear indication that the music streaming application is on a mission to make its availability in every corner of the world.

User Statistics

- **Spotify has 232M active users.** - As recorded by June 2019, the number of Spotify monthly active users is around 232M. The audio streaming company is hoping to reach the range of 245M- 256M by the beginning of 2020.

1. The institution

Spotify is the world's biggest music streaming platform by number of subscribers. Users of the service simply need to register to have access to one of the biggest-ever collections of music in history, plus podcasts, and other audio content.

It operates on a freemium model. Free Spotify access comes with lower sound quality, and advertisements, and requires an internet connection. Those who pay for Spotify Premium can listen uninterrupted to high-quality recordings, and are able to download songs to any device on which they have the Spotify app.

Spotify was founded in 2006 in Stockholm, Sweden, by Daniel Ek and Martin Lorentzon. The two wanted to create a legal digital music platform to respond to growing challenge of online music piracy in the early 2000s.

Basic functions such as playing music are totally free, but you can also choose to upgrade to Spotify Premium. Either way, you can:

- Choose what you want to listen to with Browse and Search.
- Get recommendations from personalized features, such as Discover Weekly, Release Radar, and Daily Mix.
- Build collections of music.
- See what friends, artists, and celebrities listen to.
- Create your own Radio stations.

Spotify is available across a range of devices, including computers, phones, tablets, speakers, TVs, and cars, and you can easily transition from one to another with Spotify Connect.

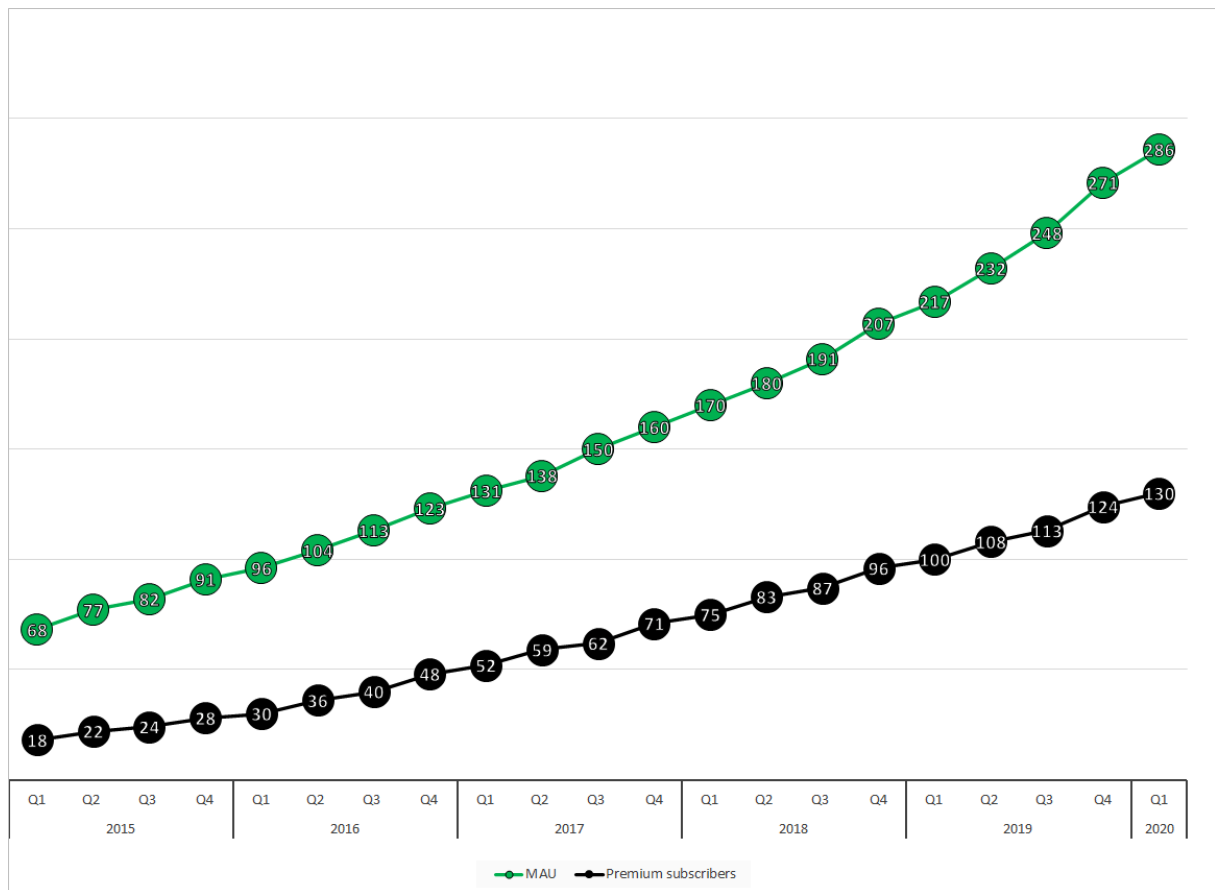
2. Users

There were 286 million monthly active users of Spotify according to the company's Q1 2020 report. Of these, 130 million were Spotify Premium subscribers.

This is up from 271 monthly active Spotify users and 124 million Spotify Premium subscribers in Q4 2019. Year-on-year, it's a 69 million increase in users (32%), and 30 million increase in subscribers (30%) - a growth rate that has been fairly consistent in recent years.

The current percentage of subscribers out of total MAUs (Monthly active users) stands at 45% - slightly lower than the 46% it has been hovering around since mid-2018.

For a bit of historical context, Spotify subscribers as a percentage of MAU in Q4 2015 stood at 31%, in Q4 2016 at 39%, by Q4 2018 at 46%.

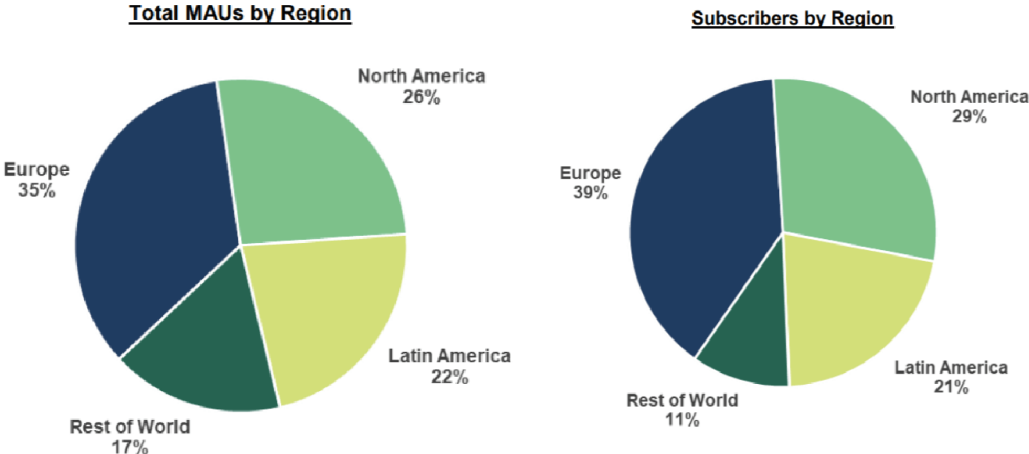


Spotify users and subscribers by region

Globally, Spotify is available in 79 markets.

Breaking it down by region, it seems there's not a huge difference in the geographies of Spotify users and Spotify subscribers. Europe is the biggest market in both cases, followed by North America. We see a greater bias towards these two more affluent regions in terms of subscribers (39% European vs 35% of MAU and 29% North American vs 26% of MAU).

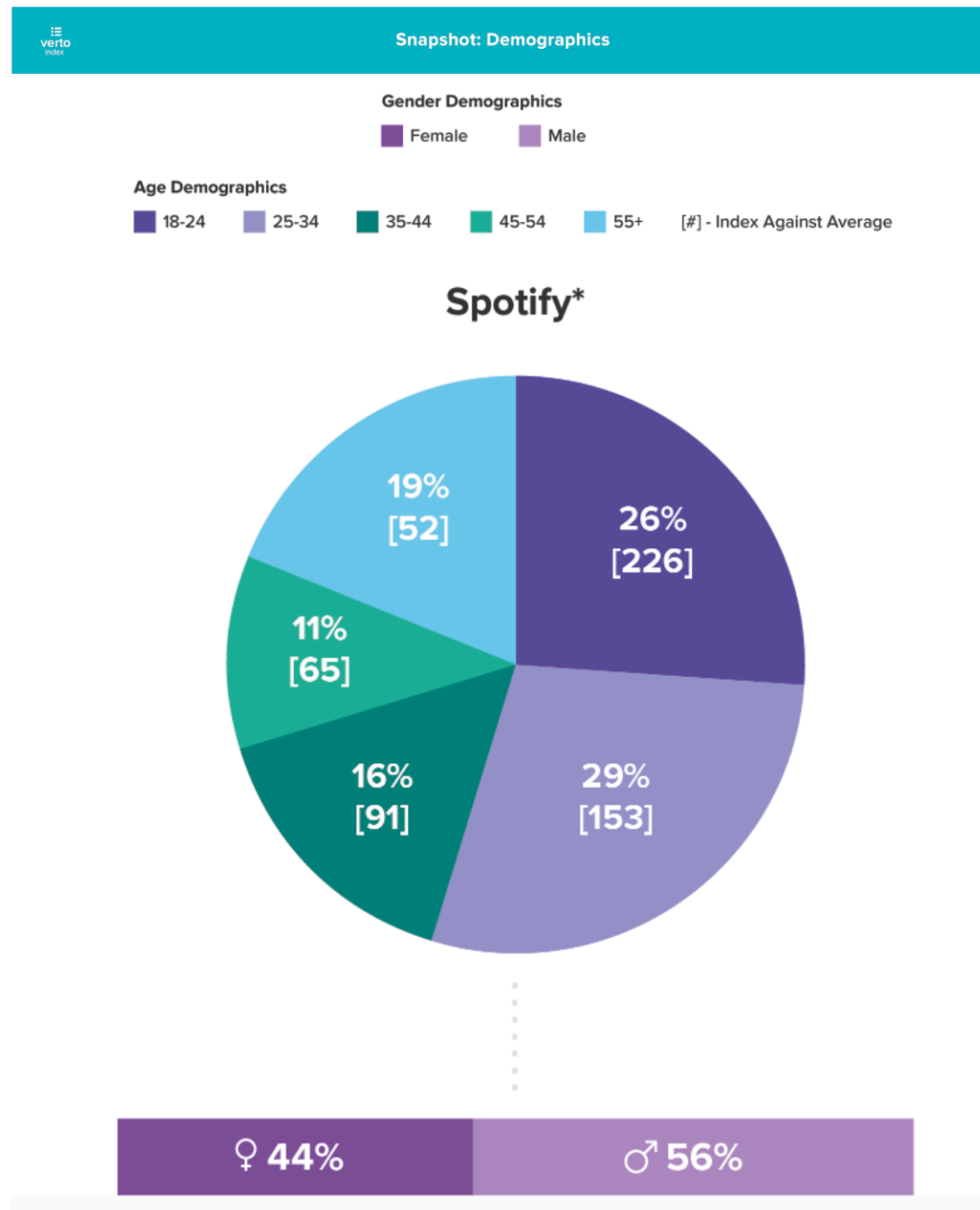
User growth in the more established regions (a grouping into which Latin America was only relatively recently introduced in Spotify's quarterly reports) reaccelerated in Q4 2019, with North America seeing its highest quarterly level of growth since 2018.



Spotify users by age

Looking at a survey of US streaming service users dating to late 2017 (new data was unavailable as of April 2020), we can see that Spotify is the most-popular channel with under-30s, with only US-specific Pandora coming close. Notably, nearly twice as many under-30s used Spotify as used Apple Music in the three months prior to the survey - perhaps something to do with the free service.

Spotify also edges out every channel but Pandora and Amazon Music (only by 1% in the latter) in the over-30s category.



Source: <https://www.businessofapps.com/data/spotify-statistics/#1>

3. Market

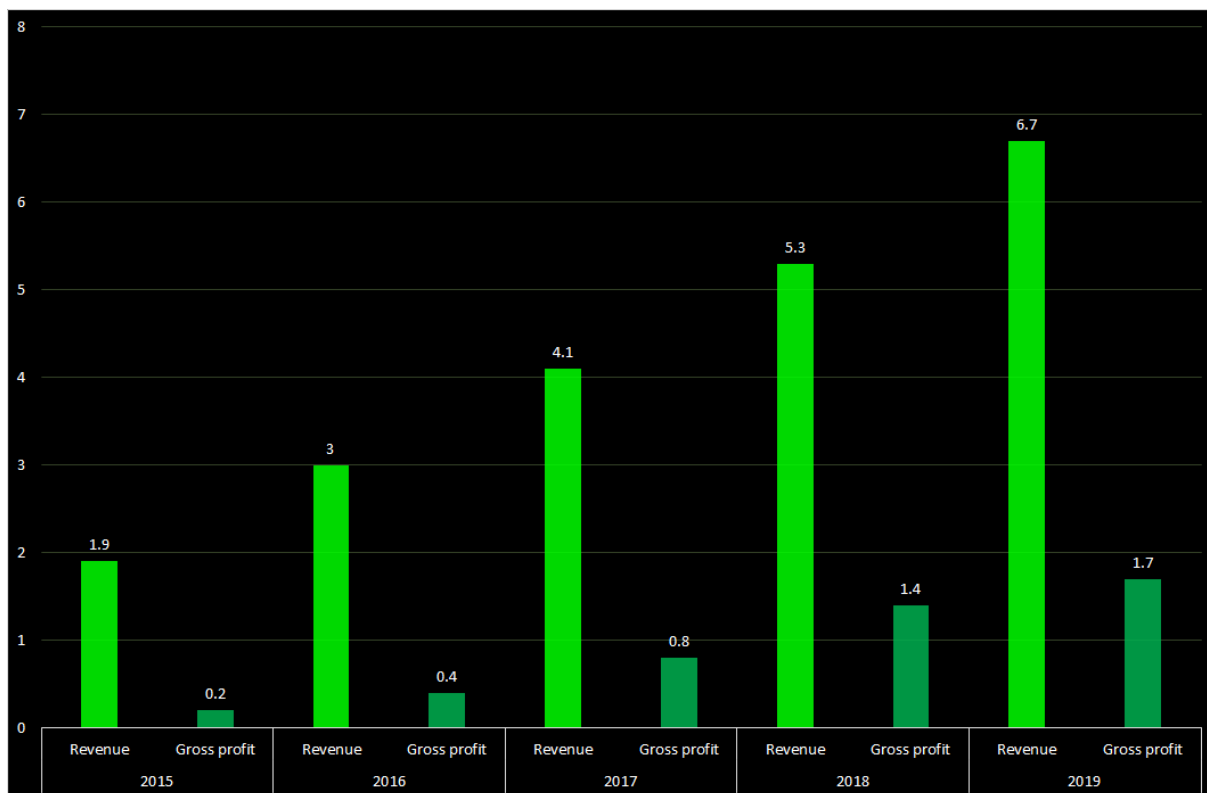
Spotify gross profit for this quarter stood at €472 million (\$511 million), which represents a very slight decrease on Q4 2019's €474 million (\$513 million). Year-on-year, we are looking at a €99 million (\$107 million) or 29% increase.

Gross margin, at 25.5%, is more or less consistent with Q4 2019's 25.6%, and up on Q1 2019's 24.7%.

Spotify annual revenue and costs

Spotify 2019 revenue came to a total of €6.7 billion (\$7.3 billion), with gross profit of €1.7 billion. This follows on from €5.3 billion (\$5.9 billion) Spotify revenue in 2018, with gross profit standing at €1.4 billion (\$1.6 billion), €4.1 billion (\$4.6 billion) in 2017, with gross profit at €849 million (\$953 million).

Spotify annual revenue and gross profit, 2015 - 2019, billions of euros



Spotify Premium vs. ads revenue

Of Spotify's revenue in Q1 2020, €1.7 billion (\$1.85 billion) came from Premium subscribers, while ad-supported users generated €148 million (\$161 million) - showing just how reliant on the subscriptions Spotify's business model is.

Spotify artists and labels payments

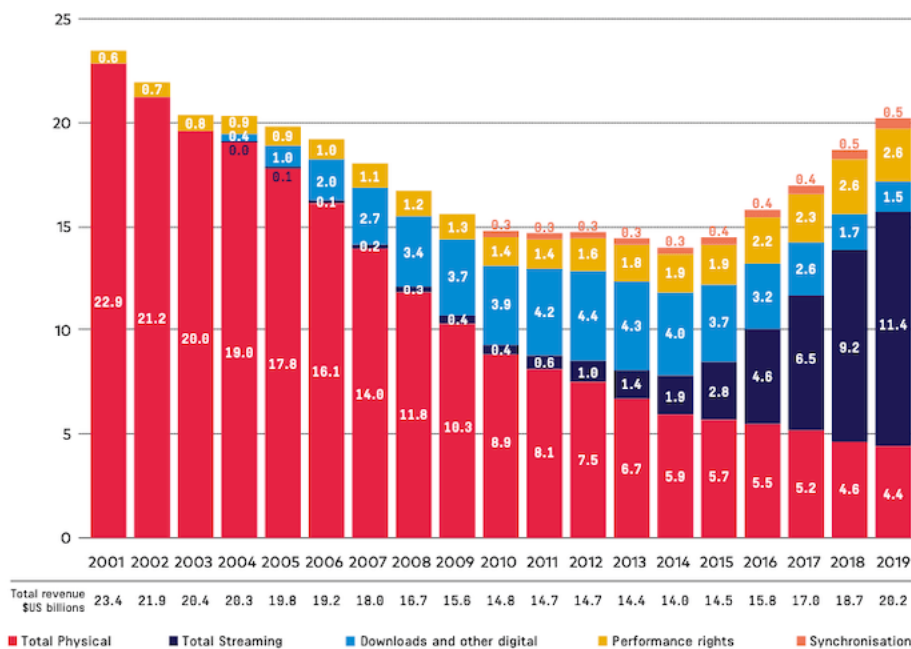
Spotify pays out around 52% of revenue to record labels, who would then pay their artists anywhere from 15% to 50% of that, depending on their status.

As of September 2018, however, Spotify offers a service to artists who want to directly upload music to Spotify. They would then receive 50% of the net revenue generated, cutting the label out of the equation.

Over 85% of music streamed from Spotify belongs to four record labels: Sony, Universal, Warner, and Merlin (Merlin is actually a licensing agency for independent labels). In 2017 Spotify signed a deal to pay a minimum of \$2 billion to two undisclosed labels (thought to be Universal and Merlin) in order to be able to negotiate better rates for itself.

Streaming share of global music market revenue

Global Recorded Music Industry Revenues 2001-2019 (US\$ Billions)

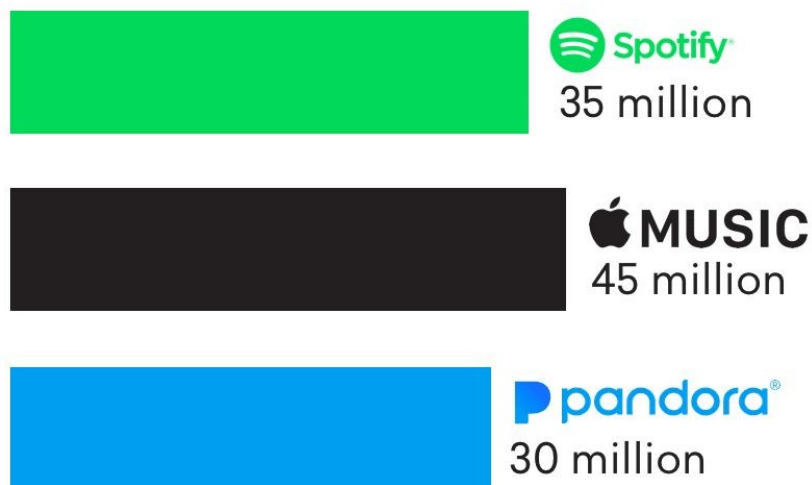


Content

- Spotify may be the world's biggest streaming service, but it does not boast the largest music repository. That accolade must go to Apple Music, which boasts no fewer than 10 million tracks more than its rival service at the time of this graphic. Spotify has recently upped its count of the number of available tracks to 40 million +. Pandora lags behind at 30 million.

Label Tracks on Streaming Services (2017)

of song tracks and variety are uniquely augmented through Spotify's shared and curated playlists

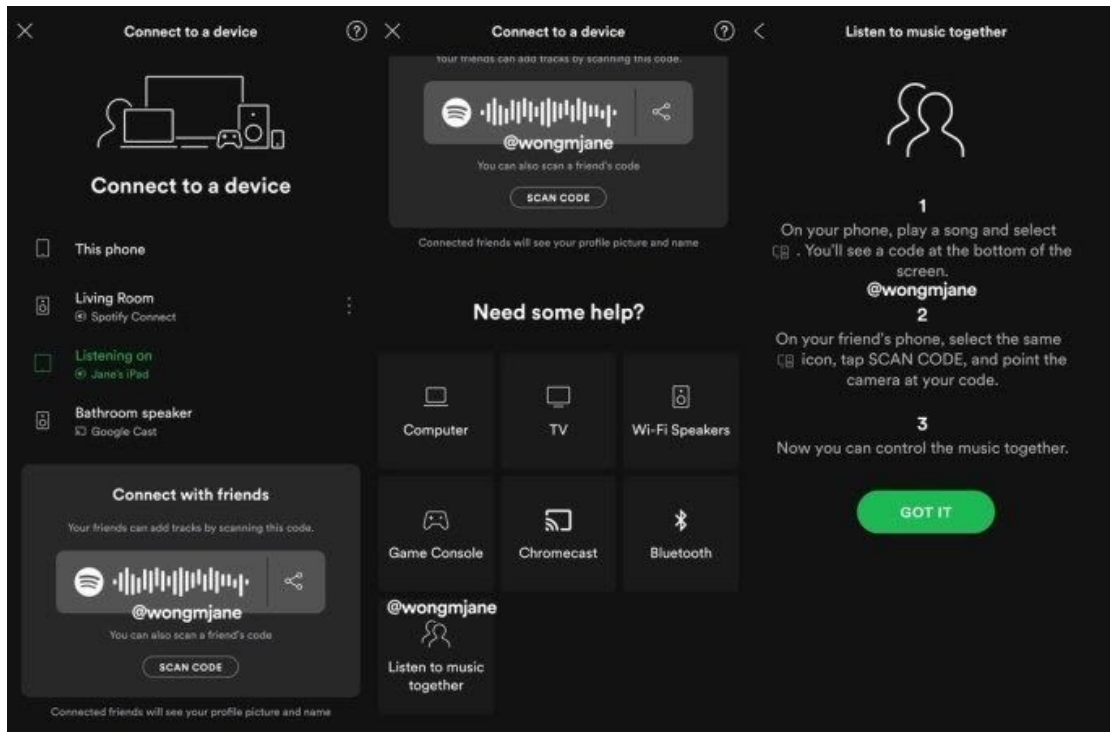


Sources: Apple, Spotify, Pandora (The Verge)

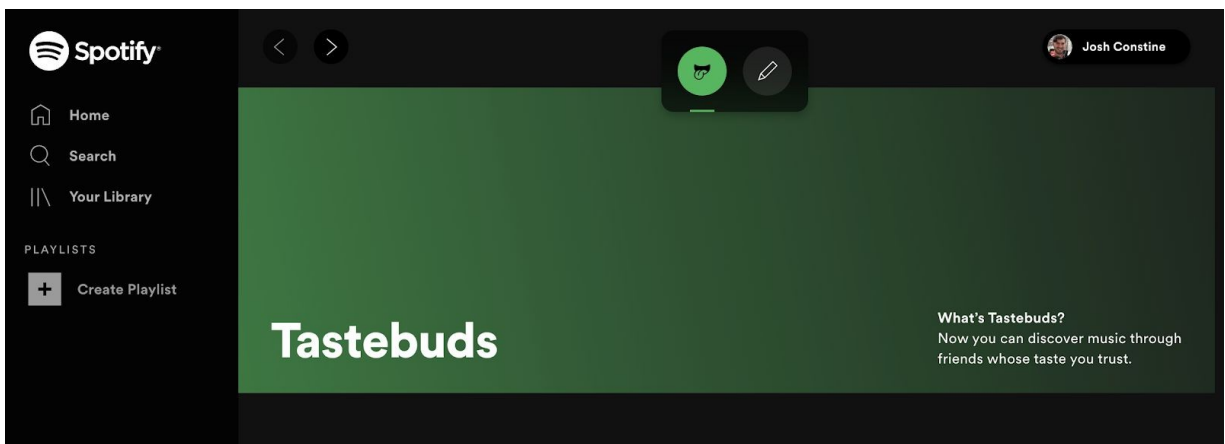
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Roadmap

- Spotify has prototyped an unreleased feature called “**Social Listening**” that lets multiple people add songs to a queue they can all listen to. You just all scan one friend's QR-style Spotify Social Listening code, and then anyone can add songs to the real-time playlist. Spotify could potentially expand the feature to synchronize playback so you'd actually hear the same notes at the same time, but for now it's just a shared queue.



- Spotify is prototyping a new way to see what friends have been listening to, called “Tastebuds.” Despite how discovering music is inherently social, **Spotify has no features for directly interacting with friends within its mobile app after axing its own inbox in 2017 (due to low engagement) and keeping its Friend Activity ticker restricted to desktop.**



Sources

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